INSTA PRODUCTS (EPZ) LIMITED

Grant Activity Report

24th February 2010

1. Beneficiary's Name: **Insta Products (EPZ) Limited**

2. Activity Name: **Ready to use therapeutic food expansion**

3. GRANT Tracking No: INS-STA-009-006

4. Advance Period: **15th December 2009 – 28th February 2010 (extended to 30th April 2010).**

5. Total Activity Budget: **US$242,432**

6. Person reporting – Paul Wythe – Financial Consultant

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Program background

The program intends to increase RUTF productive capacity in Kenya and to increase demand for quality peanuts in the region. The statement of verifiable results is reproduced below.

A. Installed capacity of the RUTF plant increases from 1500 MT to 4500 MT within three months of grant disbursement.
B. Employment will increase by three people with the expansion. The expansion will safeguard the employment of 20 people, as running the factory at a capacity of 1500 MT is inefficient, and without expansion, it would be necessary to multi task and re-deploy some of the existing staff.
C. For competitively priced RUTF, lead times for the supply of RUTF reduces from 12 weeks, from Europe, to four weeks from Insta, thus facilitating the efforts of the Humanitarian relief organizations.
D. Insta sells RUTF to Humanitarian relief organsations at US$4,300, or less, per metric tonne, thus providing the product at a lower price in Kenya than is currently available. Some relief organizations have reported incurring a landed cost in Kenya of over US$6,000 per MT, as it is airfreighted owing to the urgency of need.
E. Insta becomes a regional supplier of RUTF, through Humanitarian relief organisations who are based in Nairobi, but provide famine relief to a wider East Africa, and through marketing into Insta's designated territories (Eritrea, Somalia, Southern Sudan, Kenya, Tanzania, Uganda, Rwanda, Burundi, eastern DRC, and Madagascar).
F. Insta will reinvest cash flow from RUTF to expand production up to 12,000 MT per annum, subject to attracting sufficient demand for the product.
G. There will be an increased demand for peanuts in EA, with benefits to the smallholder sector and manufacturing. At 4,500 MT annual capacity, Insta will require 1,170 MT of peanut paste, an increase of 780 MT. If 12,000 MT production is achieved, then demand for peanut paste will be 3,120 MT per annum. As peanuts are grown by smallholders, this will lead to enhanced income for smallholders.
H. There will be an increased demand for vegetable oil from local suppliers. The increase in capacity from 1500 MT to 4,500 MT will increase the requirement for vegetable oil by 600 MT, to 900MT.

Update on statement of verifiable results

A. New machinery production is in progress. Delays in completing the grant application process and subsequent loan draw down have delayed delivery of the equipment.
B. The current line is very busy producing orders for UNICEF. Delivery of product has been delayed as product requires KEBS certification, which is expected imminently. Current employment has been safeguarded, awaiting

new machinery. Order volumes are requiring 24 / 7 shift patterns to be deployed, which is stretching the current operations. Double shifting will require additional staff, who for the time being will be employed on a contract basis.

C. Insta lead times is currently somewhere between 3 and 6 weeks, depending on the size of the order and the amount of raw materials on order in the pipeline. These can be rationalized to four weeks once there is a smooth raw material pipeline in place.

D. UNICEF pricing is US$3890, whilst other organizations are being charged US$4,300.

E. Regional distribution is already in place with certain organizations such as EAS&L and ACF. Current UNICEF orders are for Kenya use, but May and June 2010 demand from UNICEF is for other regional countries.

F. Cash flows remain constrained for now owing to working capital demands.

G. Insta is currently sourcing its peanut paste from South Africa and looking at a cheaper source from USA. Insta is formulating plans and undertaking research into best practice for smallholders. See separate section.

H. The demand for vegetable oil has already increased with current production and with escalating orders, demand will continue to increase.

Updated grant timetable.

No.	Description of activity	Benchmark / completion date (DD/MM/YY)	Revised timetable	Level of achievement
	Purchase and installation of additional RUTF capacity			
Task 1	Grant application	Done		Done
Task 2.1	Place order for machine with PMD	Done		Done
Task 2.2	Pay 40% of the pro forma invoice	20/10/09		Done
Task 3.1	PMD to manufacture machine	25/11/09		On-going
Task 3.2	Trial to be done in Kenya	26/11/09		NYC

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Task 3.3	Payment of 50% of machine – prior to shipment	27/11/09	28/2/10	
Task 3.4	Shipping from South Africa to Nairobi	10/12/09	7/3/10	
Task 4.1	Installation of machine	12/12/09	31/3/10	
Task 4.2	PMD technician to assist with installation and fine tuning of running	14/12/09	5/4/10	
Task 4.2	Payment of 10% being final installment	16/12/09	15/4/10	
Task 5.1	Commissioning of the packing machine including sanitizing of machine and running machine at commercial speeds	16/12/09	30/4/10	
Task 5.2	Staff to be trained on the use of the machine, where the dual headed machine is different from the original machine	16/12/09	30/4/10	
Task 5.3	Test to ensure product meets the appropriate standard	16/12/09	30/4/10	
Task 5.4	Make payment to PMD for the cost of the technician and his flights		1/5/10	
Benchmark	**Production of RUTF increases from 1500 MT to 5000MT, annually.**			

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	Improving the quality of peanut supply in East Africa			
Task 6	Outgrower extension program			
Task 6.1	Sign consultancy agreement with Karl Smarts	10/11/09	7/3/10	On-going
Task 6.2	Order the Elisa test equipment	31/10/09		Dependent on 6.1 – currently using existing Insta equipment **and waiting for grant**
Task 6.3	Order a supply of test kits to be used with the test equipment	31/10/09		Waiting delivery of test equipment
Task 6.4	Program of work to be devised jointly by Stuart Allison and Karl Smarts	See below		Discussions with S Humphreys, Karl Smarts and Jetlak on-going
Task 6.5	Karl Smarts to work with both local peanut paste manufacturers and set up testing facilities to assist in identifying unsafe product being supplied by farmers	See below		See 6.4
Task 6.6	Karl Smarts to work with peanut growers.	See below		See 6.4

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Component: Improvement in supply chain for peanut paste

Activities completed:

- Terms of reference for consultancy sent to Karl Smarts (Dec 09)
- Meeting held with Joseph Githigi of Karl Smarts to discuss terms of reference (Dec 09)
- Terms of reference and annual cost proposal received from Karl Smarts, with an annual cost in excess of US$200,000 (Jan 10).
- Meeting with Mr Steven Humphries to discuss proposal received from Karl Smarts (Jan 10)
- Meeting arranged with Jetlak to discuss potential for co-operation between Jetlak, Insta and Karl Smarts on peanut safety. (Further meeting planned for last week of February 2010 as Managing Director of Jetlak was away until mid-February). (Jan 10).
- Testing of current Jetlak product was completed in January 2010, and it found that Aflatoxin levels remain well above safe limits and one batch failed to meet the Coliform count requirements (>300 cfu / g) (Jan 2010).
- Strategy review of testing program between Stuart Allison and Paul Wythe to determine the next steps to be taken (Feb 10).
- Research undertaken into potential chemical dosing with Biox 5000 that can be done and contact made with Richard Stone-Wigg of Lachlan Kenya Limited, to verify cost effectiveness of using the product. This research is on-going, and could be a critical finding in terms of a cost effective solution to the Aflatoxin issue. A write up Biox 5000 is shown below. (Feb 10).
- Using an extensive network, contact has been made with an expert in respect of peanuts and Aflatoxin in South Africa – working protocols have yet to be established. (Feb 10).

Biox 5000 write up

The product Biox 5000 [Stabilized CLO2 5000ppm] is a broad spectrum Biocide which is biocidal against fungi, yeasts, moulds, bacteria, viruses and the spores thereof.

It is environmentally friendly and does not leave any harmful residues on crops, fruits, vegs etc after treatment.

Aflatoxin- producing members of Aspergillus[peanuts - mainly A.flavus + A.parasiticus] are common and widespread in nature. They can colonize and contaminate grain before harvest and during storage.

Host crops are particularly susceptible to infection by Aspergillus strains following prolonged exposure to a high humidity environment or damage from stressful conditions such as drought, a condition which lowers the barrier to entry.

As regards the Peanut Aflatoxin contamination Biox 5000 could go a long way in solving this problem: Firstly by decontaminating the soil before planting, sanitization of planting equipment etc., dipping of seed peanuts, then applying soil drenches at suitable

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intervals.
Followed by treatment of the harvested peanut crop during the critical drying stage [high contamination risk here!].

Finally sanitising the storage facilities [after pre- clean to remove debris, soils etc] using the Biox 5000, before the peanuts are placed in storage. Note: final moisture content of stored peanuts should be < 9%, RH 65%, Temp < 17 deg.C.

Biox 5000 numerous international safety/ efficacy approvals - EPA, USDA, SABS etc and is GlobalGap complaint.

Short term plan for rolling out safe practices for peanut paste manufacture

1. Employ Karl Smarts to visit the peanut market in Nairobi and identify two traders to work with back to the smallholders. (Wk1 March).
2. Network and see if there are stakeholders who would be prepared to sponsor a test site and utilize Biox 5000 with smallholders. (Wk 1 March).
3. Work with Lachlan Kenya to determine a cost effective solution to preventing Aflatoxin. (On-going).
4. Utilise grant money to buy first two Elisa test equipment and determine where to deploy, utilizing findings from 1 and 2. (Wk 1 – Wk 3 March). **From COMPETE**: No, this was to be an Insta expense since there is $19,863 for Insta's cost-sharing side of the budget to procure this equipment—not sure why this is now identified as a grant cost but this is not an approved grant expense.
5. Employ Karl Smarts to monitor testing program decided upon following information obtained from 1 & 2.
6. Develop post harvest drying mechanisms that reduce spread of Aflatoxin (Mar 2010 – SA).
7. Conduct further site visits to peanut paste manufacturers and select two for purposes of supplying peanut paste to Insta (Apr 2010).
8. Arrange contracts for the supply of high quality peanut paste to the selected manufacturers, with stringent safeguards built into track and traceability of peanuts and manufacture (depends how quickly clean peanuts can be sourced).
9. Expand program depending on success of RUTF sales.

Conclusion

The next installment of the FFS machine is now due per the attached invoice.

It is critical that at least two Elisa test machines are bought (at Insta's cost) so that a testing program can be rolled out to selected smallholders / farmers. Insta has learnt a lot in respect of what can be done to resolve the Aflatoxin issues and is now ready to move down the value chain in the manner proposed above.

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